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The Economy of Lao PDR

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MODULE 16

Outline

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Overview

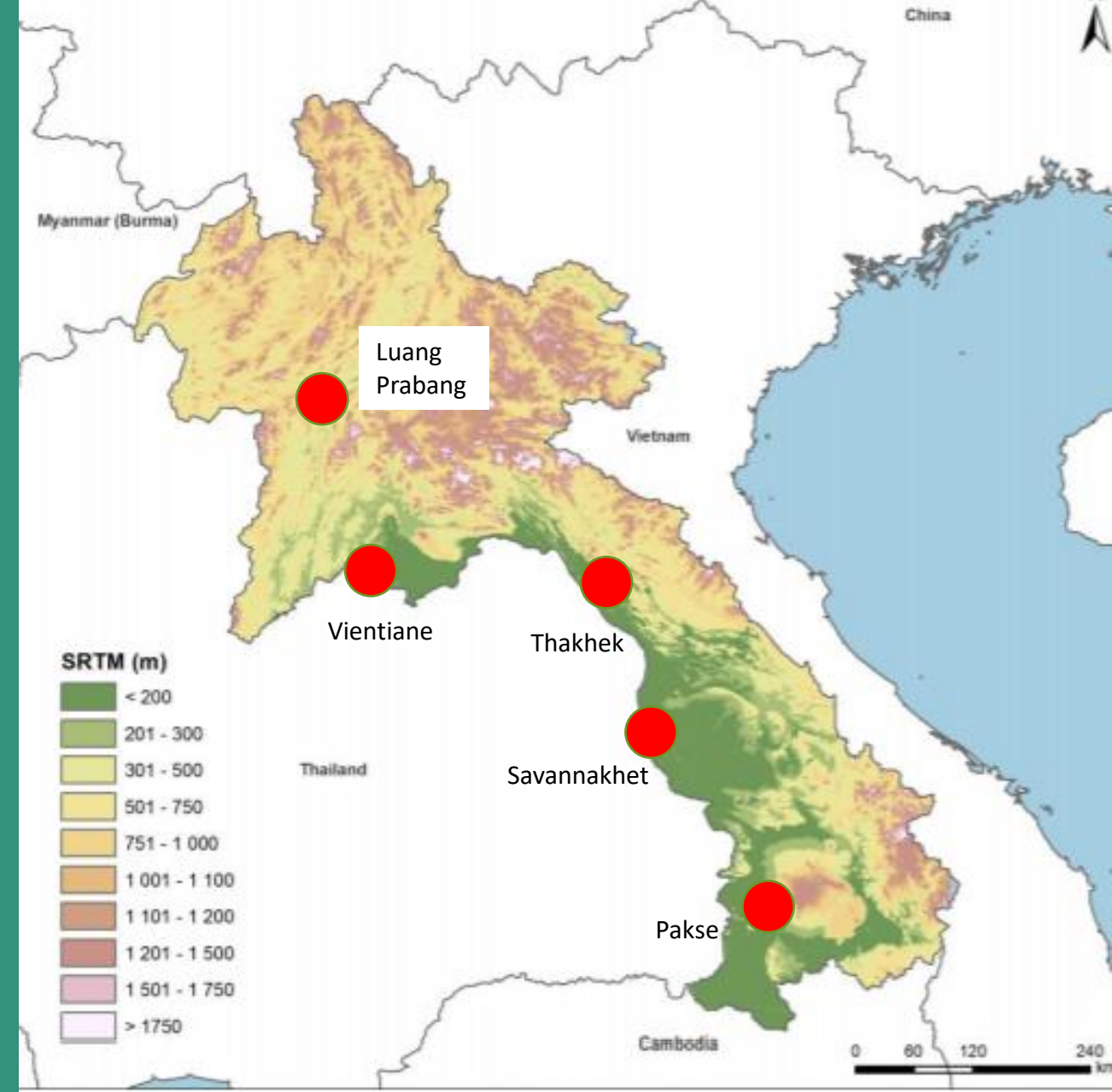
Socioeconomic indicators

	2000	2018
Population	5.3 million	7.3 million
GDP per capita	\$325	\$2,542
Under 5 mortality (per 100,000 births)	106.4	47.3
Infant mortality (per 100,000 births)	78.7	37.6
Primary education attainment	82%	97%
Poverty rate	32.1%	15.0%



Geography

- Land area: 236,000 square km
- Lao PDR is a landlocked country bordered by Cambodia, Thailand, Myanmar, PR China and Viet Nam; northern and eastern areas are mountainous
- Only 7% of the land area is arable, mostly on the lowlands along the Mekong river; main towns and cities are located in this area



Historic milestones

- 1986: Lao PDR transitions to a market economy and embarks on New Economic Mechanism
- Purpose: stabilize the macro-economy, decentralize government control, deregulate private enterprises, and stabilize food prices



Historic milestones

- 1990s: Lao PDR receives large foreign direct investment flows and official development assistance
- 1998 the Asian financial crisis resulted in high inflation and the Lao currency (KIP) lost 87% of its value against the USD
- 2013: Lao PDR joins the World Trade organization

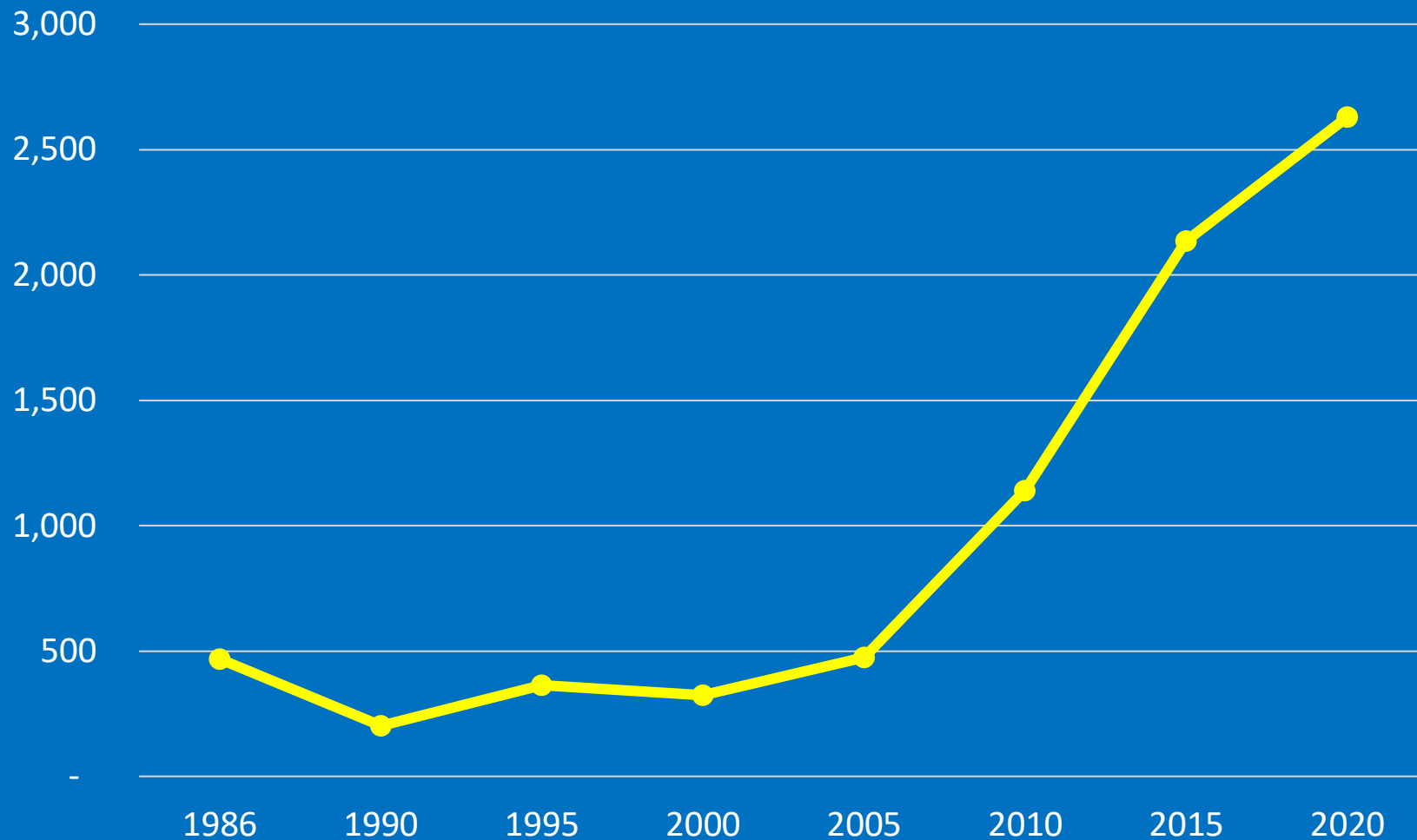


ECONOMIC PERFORMANCE



Economy

- GDP growth averaged 7% between 1998 and 2018,
- GDP per capita increased from \$325 in 2000 to \$2,542 in 2018



Economy

- Poverty varies across ethnic and geographic lines; poverty incidence decreased from 33.5% in 2003 to 23.2% in 2018
- However, inequality has widened; the Gini coefficient rose from 0.31 to 0.36 during the same period



Economic performance

- The main driver of economic growth is the resource sector, particularly mining, timber extraction, and hydropower



Economic performance

- The economy is slowly diversifying into retail and wholesale services, tourism, and construction,
- Given the country's large untapped hydropower development potential and mineral endowments, it is expected the resource sector will continue to underpin economic growth



SECTOR PERFORMANCE



Agriculture

- The agriculture sector generates most of the income for the poor people, thereby reducing poverty by 44%
- Comprises 24% of GDP, employed around 70% of the labor force
- About 80% of the rural population are subsistence farmers



Agriculture

- Gradual shift from subsistence farming; agriculture production is becoming increasingly commercialized
- Deforestation, forest degradation, and loss of biodiversity are of concern
- Concessions have boosted agricultural exports, but also leads to problems of land and forest degradation.
- Farmers are vulnerable to flood and droughts, pests, animal disease outbreaks, and price volatilities



Human development

- Education attainment facilitated the transition into non-farm employment and agriculture income growth by raising productivity
- Life expectancy and under-5 mortality rates have improved; chronic malnutrition is a concern (stunting is at 44%, among the highest in the world)



Human development

- In the absence of an adequate safety net, vulnerable households are likely to fall below the poverty line during natural disasters and economic shocks



Urban development

- Rapid urbanization: the share of urban population increased from 22.0% in 2000 to 35.1% in 2018
- The coverage and quality of basic urban services has improved over time, however challenges remain; access to improved water supply and sanitation is increasing, however, gaps remain and disproportionately affect the poor



Urban development

- Dominance of Vientiane as the primary city will likely continue in the future; this will be followed by the secondary towns
- Savannakhet as industrial and logistics center, Pakse as agricultural hub in the south and Luang Prabang as regional hub and tourist destination in northern Laos



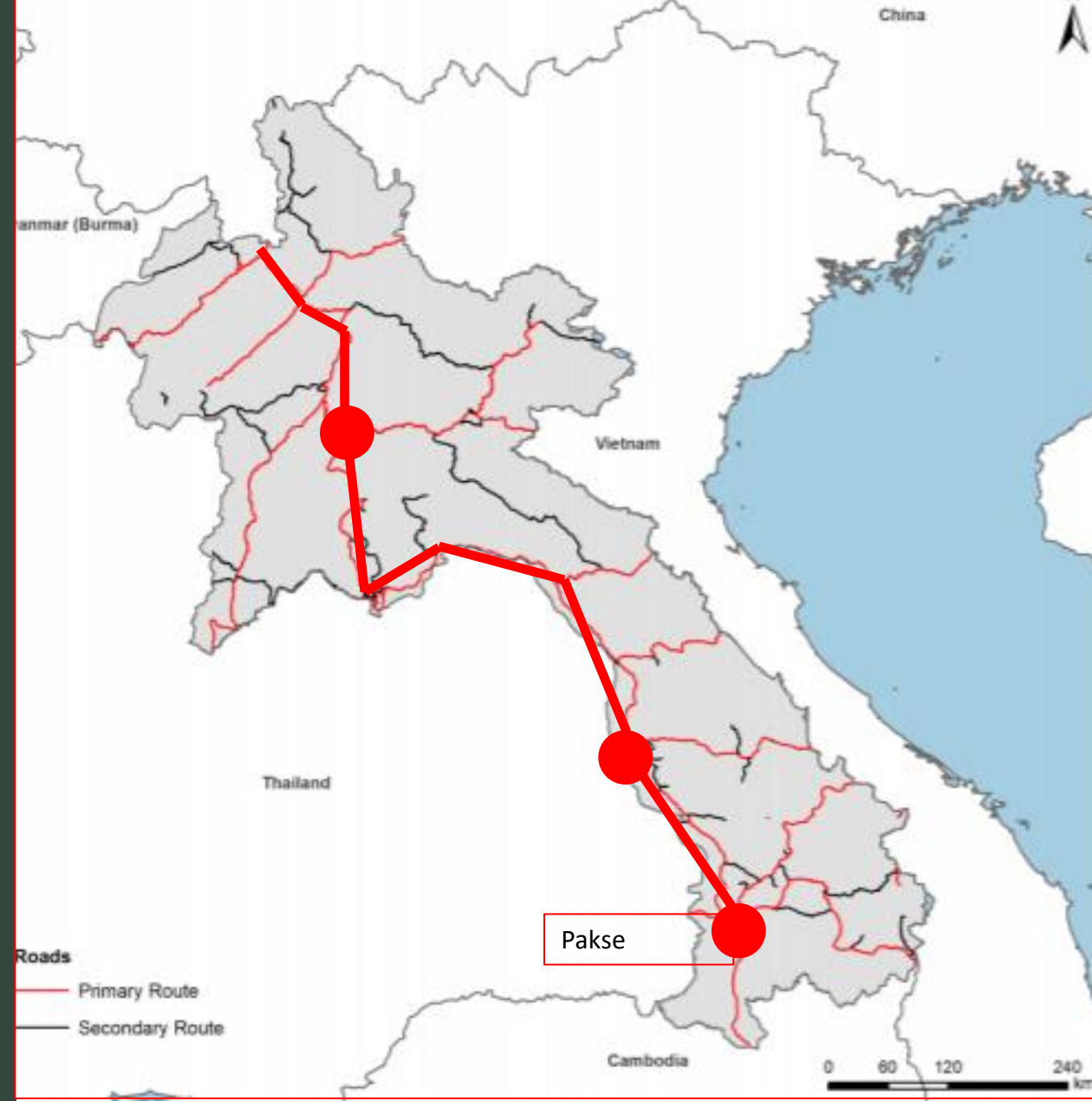
Energy

- Lao PDR is rich in hydropower; many hydropower projects built in the past 20 years
- Electrification program is one of most successful programs in the world; electrification rate exceeds 90%
- The challenge is to reach the remaining 10 percent, mostly in poor, remote areas



Transport

- National Road 13 is the main transportation backbone of Lao PDR
- National roads are in relatively good condition (85%); however secondary and provincial roads in the northern region, is a challenge
- The road network has increased by 50% since 2005; about 56% of the rural population have access to all weather roads, however, some areas still remain unconnected



DEVELOPMENT CHALLENGES



Development challenges

- Highly concentrated production and export structure in mining (34%) and power generation (21%) are fueling economic growth
- Half of exports go to Thailand and the PR China; while these sectors account for 20% of total GDP and 50% of total exports, they create only 1% of total employment



Development challenges

- Investments in infrastructure is lacking
- Quality and coverage of urban services have not kept up with rapid urbanization and urban growth
- Rural productivity is low; irrigation and other productive rural infrastructure, rural electrification, and land transport must be strengthened



Development challenges

- Inadequate education and skills and poor access to quality health services constrain business expansion
- Governance and the business-enabling environment must be improved to attract more private investment
- In 2016, the Lao PDR's overall rank for ease of starting a business was 160 out of 190 countries assessed



Development challenges

- Environmental degradation disasters triggered by natural hazards
- Changing climate patterns and extreme weather, such as floods and drought
- Weak land use planning, inadequate legal framework for environment protection, and limited management capacity





CONCLUSION

Conclusion

- Lao PDR has leveraged its natural resource endowments to generate economic growth and reduce poverty
- Economic growth needs to be more inclusive and sustainable
- Lao PDR must diversify its resource-based economy and develop infrastructure to facilitate private investment



There is a need to:

- Develop human capital, improve productivity, and widen access to markets and social services
- Accelerate legal and regulatory reforms to improve the business climate
- Improve public management to enhance the quality of public services
- Address environmental degradation and climate change



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